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1-1988

## Practicing CPA, vol. 12 no. 1, January 1988

American Institute of Certified Public Accountants (AICPA)

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# The Practicing CPA

JANUARY 1988

An AICPA publication for the local firm

## MANAGING FOR PROFIT

When I became managing partner of our firm in 1976, I decided to give up practicing accounting and become a manager. It took many years to reduce my accounting role, and presently I am responsible for about 300 to 400 chargeable hours per year.

As I became more and more involved in the management process, I developed six management principles which, collectively, have proved most effective in enhancing the profitability and efficiency of our firm.

### Financial and other goals

I quickly learned two things about managing. The first is to get rid of negative influences. The second is to take your own advice as a CPA about budgets. It is essential for anyone operating in today's environment to have a financial budget on the accrual basis. This gives management consistent information against which to judge its financial accomplishments. It allows the firm to control its expenses by knowing in advance what the expenses should be and to compare the actual results against anticipated results.

Not only should financial goals be established, but personnel goals should be set and adhered to. You need to have goals for partners involving time spent on chargeable work, time spent on administrative chores, and time that is to be spent on practice development.

Practice development goals require further detail such as the number of new contacts partners and staff will make during a year, how many goodwill visits are to be made to the firm's largest clients, and the number and dollar volume of new clients to be brought into the firm by each partner.

People should be judged on the basis of whether or not they have achieved their goals. Efforts should be monitored regularly. (The monitoring can be handled by administrative personnel.) The achievement of specific goals should then play an important role in the compensation of partners and staff.

### Get involved in the political process

Every day of our lives, we, as accountants, have the unique opportunity to see the impact of the government's involvement in the lives of its citizens. Yet because we tend to have passive natures, we do little to influence the government's actions.

We must develop power and influence in our communities and become known as people who have something to say. We are, oftentimes, in the best position to have the requisite knowledge and to explain what the government's actions mean. Yet we don't!

We should strive to become the leaders of civic and political organizations, and make strong efforts to participate in the political process. A good leader within the firm should take his or her leadership skills and use them in the community at large. We have a responsibility to inform and educate. We must get involved.

### Organizational attitude

We must always remember that the leader's attitude permeates the entire firm. If we are negative, it becomes the mood of the organization. Therefore,

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regardless of economic and other conditions, the leadership of an organization must display a positive attitude at all times.

### **Develop a management information system**

The development of a management information system that monitors all financial and partner and staff goals is essential for the efficiency and profitability of the firm.

Particular attention should be paid to the collection of accounts receivable. This is an area where most accountants are somewhat timid. Isn't it amazing how clients often require the work yesterday but seem to forget that they have to pay?

In our firm, we have developed the following system regarding the collection of accounts receivable: One individual has been assigned the role of monitoring and administering all of the accounts receivable on a part-time basis. This person meets with each partner regularly to discuss arrangements to be made with clients regarding collections, write-offs, and markdowns, and then is required to call, every month, those clients who have not paid during the previous month. These calls are generally gentle and friendly reminders to speed up the collection process.

All information gathered by the accounts receivable clerk is provided to the managing partner. This enables the managing partner to use his influence in getting the partners to follow the procedures that they have outlined for the collection process.

We also take a very tough stand with regard to clients who refuse to pay. We sue. This may be contrary to the generally accepted principles of accounts receivable collection. Our position, however, is that if clients leave us and if they decide they no longer owe the fee, we sue them. Our experience in this area has been very good, with only one countersuit for malpractice in the last five years. Of course, every case is determined on an individual basis, but the general policy is to refer to Small Claims Court or file a suit.

Similarly, information regarding each partner's attainment of goals set by the partnership in the areas of practice development, new contacts, goodwill meetings, and new business should be

monitored regularly by the managing partner. It is his responsibility to assist the partners so that they achieve their respective goals.

Every CPA firm should have accrual-basis financial statements prepared each month, with comparisons to monthly budgets. Financial goals should be set and adhered to.

We have also developed staff utilization teams for the express purpose of monitoring the effective utilization of staff. Each team meets once a month and consists of a team captain and four members. The team captains make certain that staff members meet their chargeable, practice development, and administrative goals.

### **Planning**

I'm a strong believer in developing an annual strategic plan. The strategic plan should consist of financial projections, allocation of time by partners and staff, and a well thought-out marketing plan. Our annual strategic plan is developed prior to our retreat, which takes place in December of each year. The purpose of the retreat is to go through all of the details of the annual strategic plan and secure the approval of all partners. All partners must approve each other's time goals, practice development, and administrative goals. We make every effort to see that the retreat always is a positive experience inasmuch as it is the take-off meeting for the coming year, and we want to move forward with a positive attitude.

Partner compensation is never discussed at the retreat. Salary and compensation issues are always resolved beforehand.

### **Leadership**

Don't believe in the myth of democracy if you want a well-run practice. Accounting firms should not be run by committee. Committees should only establish policies. Firms should be run by a strong managing partner responsible to the partners as a group.

Leadership ability is the most important quality managing partners can have. They must be tenacious, able and willing to fight for their beliefs, and should provide vision and direction to their firms.

Managing partners need power to get things done

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and move the firm in the direction established by the partnership. Organizing a bonus pool might be a good idea so that the managing partner is in a position to encourage and reward partner productivity.

He or she will need a proper system for monitoring financial results, engage in long- and short-range planning, and must be market-oriented and market-driven. Without this type of leadership, the concept of marketing may die, and along with it the growth of the firm.

Community and political involvement is essential. More than anything, though, the managing partner should always maintain a positive attitude. This is the only way he or she will be able to lead the firm in the desired direction. ☑

—by *Harvey A. Goldstein, CPA*  
*Los Angeles, California*

### **Total On-line Tax and Accounting Library**

A newly available, reduced-rate subscription to Mead Data Central Incorporated's Lexis service will put computerized tax, legal, and accounting research within the reach of many more AICPA members. The Institute will market this new service to members under the name Total On-line Tax and Accounting Library, or TOTAL.

TOTAL is accessible through most personal computers with a modem and will give subscribers access to current tax laws, regulations, proposed regulations, private letter rulings, revenue rulings, etc., in the FEDTAX library. Accounting and auditing research can be conducted through the NAARS library which contains corporate annual reports, reports of government entities, and the entire body of current authoritative and semi-authoritative accounting literature. Other libraries contain information on such areas as banking, federal regulations, federal laws, state laws, and bankruptcy.

There is an initial sign-up fee of \$75 and a \$10 monthly administrative fee for the service. User charges are based on time and activity, and include a \$32 per hour fee for connect time, and search costs that range from \$10 to \$33 per search.

For more information on TOTAL, contact John Graves in the Institute's technical information division: (212) 575-6391.

### **Letter to the Editor (Selection of Computerized Accounting Systems)**

I read with interest the article on computerized accounting systems in the November 1987 issue. I have no quarrel with the required information specified by Professor Zook. I question, though, whether many accountants have a large enough demand for this service to justify an ongoing, detailed study of products on the market at any given time, let alone of the subsequent enhancements since a program was last studied.

Fortunately, there are now programs available which evaluate a database of the features of the more popular accounting system programs. Using such a selection program, the practitioner specifies the features which he or she thinks the client absolutely requires, as well as features which are nice to have. The subsequent report indicates to what degree the various accounting programs satisfy the specifications. It's unlikely that any accounting program will satisfy all requirements. One can, at least, find out what each program can or cannot do, however.

By using one of these selection programs, the accountant does not have to "reinvent the wheel" at every engagement, but instead, can assist the client in the selection of an adequate accounting program at an affordable cost. *Matchware*, for example, can analyze up to seventy different accounting software programs. (Matchware Computer Services, 6435 Castleway Drive, Suite 125, Indianapolis, Indiana 46520, (317) 841-8100.) Unfortunately, that is the best that can be done under the circumstances. New accounting programs, or enhancements to existing programs come on the market so frequently that there is no ideal choice.

For additional information, I refer readers to the article by Wayne Harding, CPA, on page 106 of the March 1987 issue of the *Journal of Accountancy*. ☑

—*Manfred E. Philip, CPA*  
*Boulder, Colorado*

### **Practicing CPA Distribution Policy**

Readers are reminded that one copy of the *Practicing CPA* is sent automatically to each practice unit and to those members who have specifically requested it. If you would like to receive your own copy, please send your name and address to the membership administration department at the AICPA.

## Desktop Publishing

We have all heard the term "Desktop Publishing." Many of us wonder what it really means, though, and whether we can use it in our offices or in our clients' offices. Briefly, desktop publishing is a means of composing and printing written communications, of typeset quality, with the use of a personal computer.

Desktop publishing technology was first embraced by hobbyists and adventurous design studios. Now it has become increasingly suitable for all types of companies, including major publishers, corporate communications departments, professional designers and typographers, and smaller organizations previously only able to produce written communications with a typewriter.

Now that computer hardware and software have become more sophisticated and less expensive, we can all make use of this new method of producing communications material. Previously, to produce a quality form, newsletter, or advertising layout, it was necessary to engage a graphic designer and to go through a long process of cutting and pasting, proofreading, and many days of improving and approving design after design and layout after layout, before a final product was achieved. (See box on opposite page.)

With the use of a personal computer and a page layout program, and perhaps some other devices, you can do it all in-house with quality previously unavailable except from professional printers. With the right desktop publishing equipment, you can take a plain typewritten page, produced with any word processing program, and transform it into a newsletter or document of print shop quality. You will have the ability to take that typewritten sheet, arrange it into multiple columns with various fonts, insert graphics, wrap text around graphics, add charts, photographs and logos—all with your personal computer. If it sounds good, it *is* good. Here's how you go about it.

First, you must have a personal computer capable of running one of the many software programs available. There are software programs available for both Macintosh and DOS operating systems, both able to achieve similar quality. Let's talk about the hardware. If you have an IBM PC or clone available to use for desktop publishing, it should contain 640K of RAM and a hard disk. But one of the newer 286 or 386 machines would be preferable. The computer should have graphics capability, a high-resolution monitor, and a mouse.

A laser printer is next, for which you can expect to spend between \$2,000 and \$5,000. One with downloadable fonts would be best, however. Downloada-

ble fonts give you the ability to produce a much wider variety of fonts in a greater range of sizes than font cartridges. Another piece of hardware that could prove to be most helpful is a scanner. With this device, you have the ability to place pictures and other graphics in your forms and newsletters through electronic copying. Scanners can be purchased in the \$2,000–\$3,000 range.

If you do not have a computer suitable for desktop publishing, then you should consider purchasing one of the newer Macintosh computers because they are easier to learn and have superior built-in graphics capabilities. In addition, Mac's advantage over the DOS-based machines rests in its standard file formats, which make it easy for users to move from one application to the next. All application programs work similarly on the Macintosh, whereas every new vendor for IBM machines tends to establish his own file formats. As a result, Mac users can safely assume that their programs will work together on the Macintosh. IBM users cannot make that assumption. This is most important in desktop publishing because more than one software application may be necessary.

A page layout program will cost about \$500 for one of the many packages in either DOS format or Macintosh format, and a word processing program will run a little less. I would like to refer you to the October 13, 1987, issue of *PC Magazine*, which has excellent discussions on desktop publishing, and the hardware and software requirements to use it properly. You might also like to refer to the box on page six to become familiar with some of the language used in desktop publishing.

Let us assume that you wish to publish a newsletter for clients and friends. These are the approximate list prices you can expect:

Computer	\$3,000
Laser printer	2,500
Scanner	2,500
Software	800
Total	<u>\$8,800</u>

Following is how you would go about it. First, you will have to design the front page of the newsletter. This can be both created on and stored in the computer for recall for each issue. Next, you will import from the word processing program the articles prepared on it for use in the newsletter. On the Mac, you can import charts and spreadsheets created with other programs. Then, using the page layout program, you insert the documents into the newsletter in column format using various fonts to enhance the newsletter's appearance and improve its read-

## Traditional Publishing Steps

To understand how desktop publishing differs from conventional publishing, it might be instructive to compare the various steps entailed in producing a quality newsletter. First, the traditional method:

1. Type copy for the text.
  2. Edit, proofread, and "spec" the copy, marking it with instructions as to column widths, typefaces and sizes, spacing, etc.
  3. Send the marked copy to a typesetter to be set in type.
  4. Receive galleys, showing columns of type without page demarkations, to be proofread, edited, and returned to the typesetter for revised versions.
  5. Use the revised galleys to lay out the newsletter pages by the "cut and paste" method, moving the articles to achieve the most logical and attractive arrangement, in keeping with the newsletter's basic design. Space is left for graphic materials such as charts, graphs, drawings or photographs, which will be added later. The pasted-up dummy pages are then returned to the typesetter, who is guided by them in preparing a camera-ready proof of each page.
  6. Check camera-ready pages, and, after graphic materials and color are mapped out, print copies of the newsletter and mail them.
- With desktop publishing, step 1 is carried

out as before, but with the aid of a word processing program to facilitate step 2, copy correction. Then, in step 3, the edited copy is sent to the laser printer, to be reproduced in a choice of several of the most commonly used typefaces, in whatever size is selected and in whatever font is desired—either lightface, bold, or italics. (Additional software can extend the choices still further.)

Step 4, revision of galleys, is also performed in-house. Revisions can be made as often as necessary until the copy is fully satisfactory and line lengths are fairly constant.

Step 5, layout, is where the computerized fun and creativity begin, while step 6 does not vary basically from traditional procedures.

The advantage of desktop publishing over conventional publishing is that with revisions possible up to the last minute, there is minimal backtracking and wasted effort. The time lapses between production steps are compressed into shorter intervals, too, and the opportunity to correct or update the copy is maintained until the presses are about to roll. The total time from start to mailing will be substantially less, and the cost will be a fraction of the typeset version.

—by Arthur J. Lodge, Jr.  
AICPA New York

ability. I suggest that you begin a collection of newsletters that are well prepared so that you can copy their best layout features.

With the use of the scanner you can insert diagrams, photographs, and other graphics to further enhance the readability of your newsletter. Because you will be able to see on the screen exactly what you will see in print, you will be able to accomplish much of the necessary editing right at the computer. As the newsletter begins to take shape, you can print each page and distribute it among the partners for comment and further editing. After the final touches, print out your finished copy. You now have achieved "camera-ready copy."

From this stage, it should be a short walk to the local offset printer to select the paper and to make final arrangements for the duplication and distribution of your newsletter. I recommend the use of the metal offset plate as opposed to the paper plate for

clarity of reproduction.

That's all there is to it, and after a couple of tries, you will find that you'll be able to get a quality newsletter out of your office with a minimum of time and pain. ☒

—by Richard A. Berenson, CPA  
New York, New York

*Editor's note: To help firms utilize the new technology for their client communications, the AICPA is offering a computer-disk version of the newsletter, the CPA Client Bulletin. Subscribers publishing their own newsletters will then be able to conform Bulletin items electronically to the specifications used in their own in-house produced copy, in accordance with whatever desktop publishing format the firm decides to follow. For more information, contact Arthur Lodge, editor of the CPA Client Bulletin (212) 575-6277.*

## What technology companies want from accountants

A recent survey of 128 technology companies in five cities—Atlanta, Boston, Dallas/Fort Worth, Los Angeles, and Santa Clara—conducted by the Technology Executive Roundtable, showed that while 69 percent of these companies are “extremely or quite satisfied” with the accounting services they receive, 31 percent report they are “very dissatisfied” or only “moderately satisfied.” Forty-seven percent of the responding companies use large national accounting firms. The others are divided among regional and local firms and sole practitioners.

Sponsored nationally by Digital Equipment Corporation and several business schools around the country, the Roundtable is an organization of founders, CEOs, and active board members of small technology-related companies who meet monthly to share information and solve common business problems. The typical company has \$3.8 million in annual sales, forty-three employees, and had 61 percent sales growth over the last three years.

The entrepreneurs indicated several areas where they would like to see improvement. They thought accounting firms should

- ☐ Beef up advisory services.
- ☐ Speed response time.
- ☐ Lower fees.
- ☐ Assign more senior people to work with clients.

Audits proved to be the most expensive service the companies receive from their accounting firms. They are also the slowest. The companies say they wait an average of seventy-one days for audited financial statements, versus an average twenty-nine-day turnaround for unaudited statements.

Although the large national firms have made the biggest inroads with technology companies, the survey shows that they typically charge higher fees for some services and give slower service than their competitors. According to the survey, the average annual audit fee paid to large national CPA firms is more than 2½ times greater than the average fee paid to any other type of accounting firm. It also indicates that the companies waited longer to receive an audited statement from a large national firm—an average of seventy-four days, compared to fifty-seven days from a regional firm, seventy-one days from a local firm, and fifty days from a sole practitioner.

Only 18 percent of the surveyed technology companies rely on recommendations from bankers and lawyers when selecting an accounting firm. Seventy-four percent rely instead on recommendations from business contacts or their own studies. When they do their own studies, however, they more often than not select a large national CPA firm.

Based on this survey, local firms are in a position to offer some highly competitive services to technology companies. Practitioners interested in developing this market might find some tips in the following articles that were published last year in the *Practicing CPA*: “It’s Time to Serve Small Business,” May/June; “Panning for Gold,” June; “Referral Cultivation, Networking and Prospecting,” July; “The Personal Marketing of Professional Services,” August; “Marketing Accounting Services in a Changing Environment,” October. ☒

## The Language of Desktop Publishing

**Column balancing**—The ability of a software program to organize text so that each column of a multi-column page aligns correctly.

**Drop cap**—a large capital letter which extends down into the first few lines of text.

**Em**—a unit of measurement equal to the square of a type character (traditionally, the capital letter ‘M’) in the font and point size being used.

**En**—a measurement one-half the size of an em space.

**Flow text**—“pouring” text into a selected page format.

**Font**—a complete assortment of type for one size and face.

**Footer**—a line of text at the foot of a page.

**Gutter**—the center margin between two facing pages of a publication.

**Hanging indent**—a paragraph where all lines subsequent to the first one are indented a specified space from the left margin.

**Header**—a headline or title repeated at the top of each page.

**Hyphenation/Justification**—a routine using a set of instructions for hyphenating words at the end of a complete line.

**Kerning**—adjusting the space between specific character pairs in a given font, e.g. between the ‘w’ and the ‘i’, and between the ‘f’ and the ‘o’, to give the illusion of even spacing.

**Leading**—the spacing between lines of text.

**Point**—the unit of measurement of a typeface equal to 1/72 of an inch, or 1/12 of a pica.

**Quadding**—alignment of text, or filling out of a line.

**Left aligned**—flush left, ragged right.

**Right aligned**—flush right, ragged left.

**Justified**—flush on both sides.

**Centered**—text placed in the center of a page with equal space on either side.

**Runaround**—copy set with some lines indented or shortened to fit around illustrations.

**Tracking**—removing or adding space between characters to tighten or loosen lines.

## Why Not Turn "Casual Conversations" into Billable Events?

During a conversation at a recent MAP conference, one of the practitioners mentioned that he had regular meetings with clients, but that these were usually just casual discussions and did not really amount to much. He indicated that there was a need for a specific form that would facilitate the follow-up of such meetings. While I did not know of such a form, I agreed that it seemed to be a good idea.

I pointed out that these meetings should be considered a valuable part of any engagement—that the discussions are probably of greater value to the client than the financial statement or tax return that is being delivered or picked up.

If we accountants are going to convince ourselves that we do indeed provide consulting services, we first have to get away from the "finished piece of paper" mentality. We have to free ourselves from thinking that preparing financial statements, tax returns, etc., is the only type of work we do. We have to convince ourselves that what we say is just as important, and in some instances more important, than what we do.

Once we change the way we view our services, why not make the notes we take at client meetings a valuable part of our work papers, build the meeting into an engagement, and turn it into a billable event? A meeting follow-up form might help us do this.

You can design your own form such as the example. To be practical, the form should, at the minimum, include the following items: client name, client number, location of meeting, time started, time ended, items you wish to discuss, items the client wishes to discuss, action you are to take as follow-up to the meeting, action the client is going to take as follow-up to the meeting, and any other items that come to mind.

One other suggestion is that you make it clear to clients that you are providing a valuable service in meeting with them. You may or may not bill for this service—but don't assume that you won't. You *hope* that something will be accomplished that will enable you to bill.

CPAs' services for clients might be likened to a doctor's visit. The patient hopes the diagnosis will be that nothing is wrong because, among other things, it will cost more for the doctor's additional time. The patient never expects to obtain the initial service for nothing, however.

We have to communicate to our clients that every meeting is important and that our time and services are valuable. No discussion of client business is informal or casual.

Using the form signals the beginning of an

engagement. It formalizes the structure of the meeting and is a record of it. The purpose of the worksheet is to turn the meeting into a billable event. It marks the beginning of service to the client.

The form should also have space in which to note whether the minutes are to be typed or photocopied, and if they are to be mailed or delivered to, or picked up by the client.

### CLIENT MEETING PLANNER/FOLLOW-UP

CLIENT NAME _____	CLIENT # _____	DATE _____
LOCATION _____	TIME START _____	TIME END _____
ELAPSED TIME _____		
IN ATTENDANCE: _____		
OUR AGENDA: _____		CLIENT AGENDA: _____
_____		_____
_____		_____
_____		_____
OUR FOLLOW-UP ASSIGNMENT _____		DATE _____
_____		_____
_____		_____
CLIENT FOLLOW-UP ASSIGNMENT _____		DATE _____
_____		_____
_____		_____
_____		_____
MINUTES: _____		
___ TYPED ___ PHOTOCOPIED ___ MAILED ___ DELIVERED ___ PICKED UP		
COPIES TO: _____		
___ TO BE BILLED		MEMO BY: _____

As a method of keeping the whole firm up-to-date, it might also be a good idea to indicate who else in the firm should receive copies of the minutes for further follow-up service to the client. It is important that we continually be on the alert to cross-sell between partners or departments in the firm. Remember, clients often don't know the full scope of services your firm renders. You have the duty and obligation to let them know of their needs and your capabilities.

Selling is not an unacceptable word. Selling skills should be part of the marketing arsenal of every CPA firm today. In fact, it is truly amazing how easy it is to obtain additional business from present clients simply by making yourself available and asking how you can help. Following up on client meetings can result in closer bonds with clients and increased profits for your firm. ☒

—by Morrey Shifman, CPA  
Springfield, Ohio



### Providing Management Advisory Services

The summer/fall issue of the *CPA Management Advisor*, the newsletter of the AICPA division for management advisory services, suggests that firms regularly take an inventory of the MAS skills of their partners and staff. This can indicate weak areas which can be addressed through training or hiring, and allow firms to focus their marketing efforts to match the strengths of their personnel.

The newsletter suggests using a questionnaire that lists various functional skills in broad and narrow categories. Microcomputer installation is broad, for example, while data base installation is narrow. Industries can be similarly categorized.

Partners and staff then check their areas of expertise, or in a more sophisticated system, enter a number from 0 to 5 to indicate their degree of expertise and experience in a given area. If the questionnaire is updated and revised regularly to reflect new personnel and new skills and experience acquired, the resulting tabulations can be helpful in practice development efforts and in staffing engagements.

One of the advisory services CPAs are uniquely qualified to provide is operational audits. Often, clients don't know what an operational audit is or how one could benefit them, however.

The *CPA Management Advisor* points out that clients may be most receptive to a proposal for an

operational audit if, for example, they believe a problem exists but can't identify it, or perhaps when there is a sudden deterioration in their organization's profitability. To be effective, the proposal for an operational audit will have to convince the client to spend more money (the fee) to ultimately reduce costs.

In 1982, the AICPA published a report, *Operational Audit Engagements*, which helped codify these engagements and listed such benefits as improving profits, reducing costs, determining problem areas, and enhancing management control. The newsletter says to stress these benefits when making the proposal, and suggests that once the engagement is completed, it won't hurt to use the term *operational audit* in your reports so clients will be inclined to associate it with what was accomplished.

The *CPA Management Advisor* is just one of many MAS publications that members of the division received during the past year. The division is in the process of implementing a data base and inquiry system that will facilitate contacts between members to exchange information or services dealing with specific types of MAS engagements for clients in specific industries. Call the MAS division, (212) 575-6290, for information about becoming a member or about the many AICPA MAS publications. ☒

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